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Determining the Value of Donated Property

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Introduction

You may take a charitable contribution deduction, under certain conditions, on your federal income tax return for a contribution or gift to, or for the use of, a qualified organization. To figure how much you may deduct for property that you contribute, you must first determine its *fair market value*.

This publication is designed to help donors and appraisers determine the value of property (other than cash) that is given to qualified organizations. It includes the kind of information you must have to support the charitable contribution deduction you claim on your return.

For more information on charitable contributions, see Publication 526, *Charitable Contributions*.

Penalty. You may be liable for a penalty if you overstate the value (or adjusted basis) of donated property. The penalty is 30% of the underpayment of tax related to the overstatement. In general, you are liable for the penalty if:

1) The value, or adjusted basis, claimed on the return is 150% or more of the correct amount, and
2) You underpaid your tax by $5,000 or more because of these overstatements.

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What Is Fair Market Value?

Fair market value generally is the price that property would sell for on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the facts. It takes into account many factors that affect the value of property on the *date of contribution* (discussed later).

For example, if you give used clothing to the Salvation Army, the fair market value would be the price that typical buyers actually pay for clothing of this age, condition, style, and use. Usually such items are worth far less than what you paid for them.

In making and supporting the valuation of property given to a qualified organization, all relevant factors affecting its value must be considered. These include the cost or selling price of the item, sales of comparable properties, replacement cost, opinions of experts, and the valuation date (date of contribution).

If you put restrictions on the use of property you donate, the fair market value must reflect that restriction. For example, you donate land and restrict its use to agricultural purposes. You must value the land at its value for agricultural purposes, even though it would have a higher fair market value if it were not restricted.

Cost or Selling Price of the Donated Property

The cost of the property or the actual selling price may be the best indication of its fair market value. For this to be considered:

1) The purchase or sale must take place close to the valuation date in an open market,
2) The purchase or sale must be at "arm's length,"
3) The buyer and seller must have known of all relevant facts,
4) The buyer and seller did not have to act, and
5) The market did not change between the date of purchase or sale and the valuation date.

Example. Tom Morgan, who was not a dealer in gems, bought an assortment of gems for $5,000 from a promoter. The promoter claimed that the price was "wholesale" even though he and other dealers made similar sales at similar prices to other persons who were not dealers. The promoter said that if Tom kept the gems for over one year and then gave them to charity, Tom could claim a charitable deduction of $15,000, which, according to the promoter, would be the value of the gems at the time of contribution. Tom gave the gems to a qualified charity 13 months after buying them, and claimed a charitable deduction of $15,000.

The best evidence of fair market value depends on actual transactions and not on some artificial estimate. The $5,000 charged Tom and others is, therefore, the best evidence of the maximum fair market value of the gems.

The purchase or sale should be reasonably close to the valuation date. Because conditions in the market change, the cost or selling price of property may have less weight if the property were not bought or sold reasonably close to the date of contribution (valuation date).

The terms of the purchase or sale should be considered in determining fair market value if they influenced the price.

Unless you can show that there were unusual circumstances, it is assumed that the increase or decrease in the value of your donated property from your cost has been at a reasonable rate. For time adjustments, an appraiser may consider published price indexes for information on general price trends, building costs, commodity costs, securities, and works of art sold at auction in an arm's-length sale.

Example. Bill Brown bought a painting for $10,000. Thirteen months later he gave it to an art museum, claiming a charitable deduction of $15,000 on his tax return. Bill should include with his return proof that there were unusual circumstances that justify a 50% increase in value for the 13 months he held the property.

An arm's-length offer to buy the property close to the valuation date may help to prove its value if the person making the offer was willing and able to complete the transaction. To rely on an offer, you should be able to show proof of the offer and the specific amount to be paid. Offers to buy property, other than the donated item, will help to determine value if there is reasonable similarity to the donated property.

Sales of Comparable Properties

The sales prices of properties similar to the donated property are often important in determining the fair market value. The weight to be given each sale depends on the following:

1) The degree of similarity between the property sold and the donated property.
2) The time of the sale— whether it was close to the valuation date.
3) The circumstances of the sale— whether it was at arm's length with a knowledgeable buyer and seller, with neither having to act.
4) The conditions of the market in which the sale was made—whether unusually inflated or deflated.

See the discussion of *Comparable sales*, later under *Valuation of Various Kinds of Property*.

Example 1. Mary Black, who was not a book dealer, paid a promoter $10,000 for 500 copies of a single edition of a modern translation of the Bible. The promoter had claimed that the price was considerably less than the "retail" price, and gave Mary a statement that they had a total retail value of $30,000. The promoter ad-

vised Mary that if she kept the Bibles for more than 12 months and then gave them to a qualified organization, she could claim a charitable deduction for the "retail" price of $30,000. Thirteen months later Mary gave all the Bibles to a church that she selected from a list provided by the promoter. At the time of her donation, wholesale dealers were selling similar quantities of Bibles to the general public for $10,000.

The fair market value of the Bibles is $10,000, the price at which similar quantities of Bibles were being sold to others at the time of the contribution.

Example 2. Assume the same facts as in the example above except the promoter gives Mary Black a second option. The promoter said that, if she wants a charitable deduction within a year of purchase, she could buy the 500 Bibles at the "retail" price of $30,000, paying only $10,000 in cash and giving a promissory note for the remaining $20,000. The principal and interest on the note would not be due until the twelfth year. According to the promoter, Mary could then, within a year of purchase, give the Bibles to a qualified organization and claim the full $30,000 retail price as a charitable contribution. She purchases the Bibles under the second option and, 3 months later, gives them to a church, which will use the books for church purposes.

At the time of the gift, the promoter was selling similar lots of Bibles for either $10,000 or $30,000. The difference between the two prices was solely at the discretion of the buyer. The promoter was a willing seller for $10,000. Therefore, the value of Mary's contribution of the Bibles is $10,000, the amount at which similar lots of Bibles could be purchased from the promoter by members of the general public.

Replacement Cost

The cost of buying, building, or manufacturing property similar to the donated item should be considered in determining fair market value. However, there should be a reasonable relationship between the replacement cost and the fair market value.

The replacement cost is the amount it would cost to replace the donated item on the valuation date. Often there is no relationship between the replacement cost and the fair market value. If the supply of the donated property is more or less than the demand for it, the replacement cost becomes less important.

To determine the replacement cost of the donated property, find the "estimated replacement cost new." Then subtract from this figure an amount for depreciation due to the physical condition and obsolescence of the donated property. You should be able to show the relationship between the depreciated replacement cost and the fair market value, as well as how you arrived at the "depreciated replacement cost new."

Opinions of Experts

Generally, the weight given to an expert's opinion on matters such as the authenticity of a coin, a work of art, or the most profitable and best use of a piece of real estate, depends on the knowledge and competence of the expert and the thoroughness with which the opinion is supported by experience and facts. For an expert's opinion to deserve much weight, the facts must support the opinion.

Date of Contribution

It is important to determine the correct ***valuation date*** (the date of the contribution) because:

1) You must determine the value of your donated property as of that date, and
2) Generally, you must use the value of the property on that date to arrive at the amount of your contribution deduction. For certain exceptions, see *Valuation of Various Kinds of Property*, later in this publication.

Whether you use the cash or accrual method of accounting, the charitable deduction may be taken only in the tax year in which the contribution is actually made. Under certain circumstances, an accrual method corporation may choose to deduct contributions that were not paid during the year if payment is made by the 15th day of the 3rd month following the close of the tax year. For more information, see Publication 542, *Tax Information on Corporations.* Ordinarily, the contribution is made when the transfer of the property takes place. But, see *Donating a Future Interest in Tangible Personal Property*, later in this publication.

Stock. If you deliver, without any conditions, a properly endorsed stock certificate to a qualified organization, or the organization's agent, the time of the contribution is the date of delivery. If the certificate was mailed and received through the regular mail, it is the date of mailing. If you deliver the certificate to a bank or broker acting as your agent, or to the issuing corporation or its agent, for transfer into the name of the organization, the time of the contribution is the date the stock is transferred on the books of the corporation. This, in effect, is the date of delivery to the organization.

Options. If you grant an option to a qualified organization to purchase real property, you have not made a charitable contribution until the organization exercises the option. The amount of the contribution is the excess of the fair market value of the property on the date the option was exercised over the exercise price.

Example. You grant an option to a local university, which is a qualified organization, to purchase real property. Under the option, the university could purchase the property at any time during a 2-year period for $40,000. The fair market value of the property on the date the option was granted was $50,000.

In the following tax year, the university exercises the option. The fair market value of the property on the date the option is exercised is $55,000. Therefore, you have made a charitable contribution of $15,000 ($55,000, fair market value, minus $40,000, exercise price) in the tax year the option is exercised.

Reduction for Certain Interest

The amount of a charitable contribution must be reduced for certain interest to the extent necessary to avoid a double deduction of the same amount as an interest deduction and as a charitable contribution. This reduction is necessary if a liability is assumed by the recipient of the contribution (or any other person) or if the property contributed is subject to a liability.

The amount of the contribution must be reduced for interest that has been paid (or is to be paid) by you, is attributable to the liability, and is attributable to any period after the contribution.

Example. On January 4 Ann Green gave real estate to the local university. Her adjusted basis and the fair market value of the property was $10,000. The university agreed to assume Ann's debt of $8,000. Two days before making the gift she prepaid one year's interest of $800 on the debt and will take an interest deduction for that amount. The value of the gift, before subtracting the prepaid interest, is $2,800 ($10,000 − $8,000, the debt, + $800, the prepaid interest). To figure her charitable deduction, she must subtract the $800 interest deduction from the value of the gift. Her contribution deduction is $2,000 ($2,800 − $800).

Bonds. You also must subtract from the fair market value any interest paid (or to be paid) on money borrowed to buy or carry a bond, and that is for any period *before* you made the contribution. However, this reduction is limited to the interest (including bond discount and other items that are the same as interest) receivable on the bond that is for the period before the contribution and that you do not, because of your accounting method, have to include in your income for any tax year. As used here, the term "bond" means any bond, debenture, note, certificate, or other proof of debt.

Gain or Loss from Contribution

Generally, the difference between the fair market value of property you give to a qualified organization and your basis in the property does not result in a gain or loss to you.

Example. You give to your church stock with a fair market value of $10,000. Your basis in the stock is $20,000. You may not deduct the difference as a loss on your income tax return. In addition, your charitable deduction is limited to $10,000, the fair market value of the stock.

Exceptions. There are exceptions to the general rule, such as for property on which you had a gain or loss that you were not required to report. For example, a donation of an installment obligation to a qualified organization may result in a taxable gain or an allowable loss to you. See *Installment Obligations*, later.

Bargain sale. Another exception is a "bargain sale." A bargain sale is a sale or exchange of property to a qualified organization at less than its fair market value, which results in a transaction that is part charitable contribution and part sale or exchange. A bargain sale may result in a taxable gain. For more information, see Publication 526, *Charitable Contributions.*

Gifts of Appreciated Property

If you donate property with a fair market value that is greater than your basis (generally your cost) in the property, you may have to subtract all or part of the appreciation (increase in value) from the fair market value when figuring your deduction. The amount of the reduction depends on whether the property is ordinary income property or capital gain property.

Ordinary income property is property the sale of which would result in ordinary income or short-term capital gain to you if sold at fair market value on the date of contribution. Examples of ordinary income property are inventory, a copyright, a literary, musical, or artistic composition given by the creating artist, certain letters and memorandums (discussed later under, *Letters and Memorandums*), and capital assets held 6 months or less (one year or less if acquired before June 23, 1984).

The deduction for a gift of ordinary income property is limited to the fair market value of the property minus the amount that would be ordinary income.

Example. You give to your church stock that you held for 3 months. The value of the stock is $1,000, but you paid only $800. Because the $200 would have been a short-term capital gain, your deduction is limited to $800.

Activities equivalent to those of a dealer. If your acquisition and contribution activities are equivalent to the activities of a dealer buying and selling inventory, your donation is treated as ordinary income property (inventory).

Your contribution activities are equivalent to the selling activities of a dealer if you buy or

produce property in bulk and distribute it to qualified organizations. Because this treatment applies *only* to charitable contributions, you are not considered to be carrying on a trade or business for any other purposes.

Example 1. Lisa Baker, not a dealer in art, bought for $25,000 a substantial part of the total limited edition of a lithograph print by a well-known artist. After holding the prints for 7 months, Lisa gave them to various art museums. The total fair market value of the prints was $35,000 when they were donated. Because of her bulk purchase and disposition of the prints, Lisa's activities are considered to be equivalent to those of a commercial dealer in art. Her deduction is limited to $25,000 (the fair market value, $35,000, minus the amount that would be ordinary income if she had sold the prints, $10,000).

Example 2. Tom Miller is not a dealer in books. Through a promoter, Tom bought 100 art books for $2,500, or $25 a book, from a company located in a foreign country. The retail price of $100 a book is legally fixed under the law of the foreign country. The promoter claimed that, for income tax purposes, the fair market value of the books is their established retail price in the foreign country. After holding the books for 9 months, Tom gave them to several charities and claimed a $10,000 ($100 a book) charitable deduction on his income tax return. The list price of the books in the foreign country is not enough to support the deduction claimed by Tom.

Because Tom's activities are equivalent to the selling activities of a book dealer, he is treated as having contributed ordinary income property. If the fair market value of the books at the time of the gift is determined to be $3,000, or $30 a book, Tom's deduction is limited to $2,500 (the fair market value, $3,000, minus $500, the amount that would be ordinary income).

However, if the fair market value were determined to be $1,000, or $10 a book, Tom's deduction would be limited to $1,000, the fair market value. This rule applies to any property donated under similar circumstances.

Depreciable property. If you give depreciable or recovery property to a qualified organization, you must reduce its fair market value by the amount of the gain that would be ordinary income, because of the depreciation or Code section 179 deduction taken, if the property had been sold. See Publication 544, *Sales and Other Dispositions of Assets*, for the kinds of property to which this rule applies.

There are special rules for corporations (other than S corporations) that contribute certain kinds of ordinary income property, such as inventory, to public charities or private operating foundations. For more information, see Publication 542, *Tax Information on Corporations.*

Capital gain property is property the sale of which would result in long-term capital gain if you sold it at fair market value on the date of contribution.

The maximum amount of the deduction is usually the fair market value of the property. But an individual must reduce the contribution by 40% of the amount that would be a long-term capital gain if:

1) The contributed capital gain property is *tangible personal property* and the charity's use of the property is unrelated to its exempt purpose or function (for example, soon after a painting is given to an educational organization, the organization sells it at auction), or
2) The capital gain property is given to certain private nonoperating foundations.

In addition, if you contribute capital gain property not described in (1) or (2), you may choose to reduce the amount of the contribution by 40% of the increase in value that would be long-term capital gain if the property were sold. This choice may benefit you because of rules on deduction limitations and carryovers to later years.

Qualified appreciated stock. If you contributed any qualified appreciated stock to a private nonoperating foundation after July 18, 1984, you do not have to reduce the contribution according to the rules discussed above. Qualified appreciated stock is any stock of a corporation that is capital gain property and for which, on the date of the contribution, market quotations are readily available on an established securities market. This special rule does not apply if you (including your family) contribute more than 10% of the value of the outstanding stock of a corporation.

For more information on gifts of appreciated property and special limits that may apply, see Publication 526.

Contributions Related to Your Business

If you can deduct only part of your allowable contribution because of the percentage limits, the dollar limits, or the requirements as to the time of payment, you may not deduct the remainder as a business expense.

Example. You give property worth $5,000 to a qualified organization but you can deduct only $4,000 as a charitable contribution because of the various limits and requirements that apply to charitable contributions. You may not deduct the remaining $1,000 as a business expense. However, see *Inventory*, discussed later.

Limits on business expense deductions. The limit on business expense deductions applies only if the contribution or gift is, in fact, a charitable contribution. If your transfer of property to a qualified organization is directly related to your business and you make the transfer with reasonable expectation of a financial return equal to the value of the property transferred, the transfer may be an allowable business expense rather than a charitable contribution.

Example. Jim Wilson owns a furniture store. Jim gives furniture and equipment held for sale to the local hospital (a qualified organization). In return, the hospital signs an agreement to provide medical services and facilities for Jim's employees. The transfer is not a charitable contribution. If it otherwise qualifies, the cost of the goods delivered may be deducted as a business expense.

Transfer of land to a governmental body. If you transfer part of your land to a governmental body (state, county, etc.) to get approval of your plans to subdivide the remaining land, you have not made a charitable contribution. However, you may add your basis (generally your cost) in the transferred land to your basis in the remaining land.

Installment Obligations

A gift of installment obligations is deductible. The amount of the deduction is the fair market value of the obligations at the time of the gift if the difference between the basis of the obligations and their fair market value is included in income at the time of the gift. Any gain may be ordinary income or capital gain, and any loss may be deducted if the property sold was held for business or investment purposes.

Installment obligations are those received in an installment sale that is reported under the installment method. The gain or loss is considered to result from the sale or exchange of the property on which the obligations were received.

Example. You sold your home 2 years ago for $80,000 realizing a long-term capital gain of $40,000. You did not buy or build a new home and you are not eligible for the one-time exclusion of gain from the sale of a principal residence (your home). Six years ago your home cost you $40,000. When you sold it, you received $25,000 in cash and the buyer's note, secured by a mortgage for the remainder, payable in later years. Last year, before the buyer made any payments on the note, you gave the note and the mortgage to your church. At that time they had a fair market value of $49,000. You may deduct the $49,000 as a charitable contribution. You must also include $21,500 in your income, before the capital gain deduction, figured as follows:

Fair market value of note at time of gift		$49,000
Selling price of home (see contract price)	$80,000	
Minus basis (cost of house)	40,000	
Profit to be realized on sale	$40,000	
Percentage of profit, or part of each collection you must report as income (under installment method), $40,000 divided by $80,000	50%	
Unpaid balance of note	$55,000	
Amount of income you would report if the note were paid in full, 50% of $55,000	27,500	
Adjusted basis of note:		
Excess of unpaid balance of note over amount of income you would report if note were paid in full		27,500
Income realized on disposition (gift) of installment obligation		$21,500

You report the $21,500 as a long-term capital gain, because the gain on the sale of the home was a long-term capital gain.

Letters and Memorandums

Letters, memorandums, or similar property given to a charity by the person who created them or the person for whom they were created, or by the person to whom they were addressed, are considered *ordinary income property.* The deduction is limited to the fair market value of the property minus the amount that would have been ordinary income if the property had been sold at the time of its contribution.

The term ***similar property*** includes a draft of a speech, a manuscript, a research paper, an oral recording of any kind, a transcript of an oral recording, a transcript of an oral interview or dictation, a personal or business diary, or a log or a journal. In addition, a corporate archive, including a corporate charter, office correspondence, a financial record, a drawing, a photograph, or a dispatch is considered to be similar property.

These rules do not apply to such property as a corporate archive, financial record, or correspondence sold or disposed of as part of a going business if there is no significant value separate and apart from its relation to, and use in, the business.

Generally, property is created by the personal efforts of an individual who performs literary, theatrical, musical, artistic, or other work that effectively contributes to creating the property, or by an individual who directs and guides the performance of others.

A letter, memorandum, or similar property that is prepared by personnel who are under

the administrative control of an individual, such as a corporate executive, is considered to have been prepared or produced by the executive, whether or not the material is reviewed by that person.

Government Publications

U.S. Government publications (including the *Congressional Record*) that you get from the government without charge, or below the price at which they are sold to the general public, are considered *ordinary income property*. If you later give these publications to a qualified organization, your deduction is the fair market value minus the amount that would be ordinary income.

If you get, without charge, any government publications from someone who got them without charge, or below the price at which they are sold to the general public, your basis in the publications, for tax purposes, is the same as that of the person who originally got them.

Benefits to Donors

If you expect to receive money or other benefits in return for making a gift to a qualified organization, and the value of the benefit is equal to the value of your gift, you have not made a charitable contribution.

Example. You transfer real estate to a nursing home in return for a promise of permanent care for your father. You have not made a charitable contribution because you have received a valuable consideration (permanent care for your father) for making the gift.

Donating the Use of Your Property

If you let a charitable organization use your property, you may not deduct the rental value of its use. For example, you may not deduct the rental value of the use of your land by a church for a picnic.

Donating a Future Interest in Tangible Personal Property

A future interest is an interest in property that is to begin in use, possession, or enjoyment at some future time. It is not necessary that the interest be designated as a future interest under state law.

When deductible. A gift of a future interest in tangible personal property to a qualified organization may not be deducted until all intervening interests in, and rights to, the actual possession or enjoyment of the property have either expired or are held by someone other than yourself or *related persons* (defined later).

As used here, ***tangible personal property*** includes a fixture, such as a chandelier, that can be removed from the real property and donated separately.

The amount of the contribution is the value of the future interest when the intervening interests have expired.

Example 1. You agree to lend your collection of rare coins for an exhibit by a nonprofit museum. Under the terms of the agreement, you may take back the collection at any time before your death. At death the collection will pass to the museum, a qualified charitable organization.

Because this collection of rare coins is not held primarily as a medium of exchange and has increased in value as a collector's item, the collection is tangible personal property. A charitable contribution was *not* made at the time it was placed on exhibit.

Example 2. You transferred a painting to your son for your life and then to the local art museum upon your death. If your son irrevocably transfers his interest to a friend in a later year, you may take a charitable deduction in that year, but not sooner. The amount of your deduction is the value of the future interest in the painting in the year your son transfers his interest to his friend.

Related persons include the following:

1) You and the members of your family—this includes only your brothers and sisters, half-brothers and half-sisters, spouse, ancestors (parents, grandparents, etc.), and lineal descendants (children, grandchildren, etc.),
2) You and a corporation in which you own, directly or indirectly, more than 50% in value of the outstanding stock,
3) A trust fiduciary and a corporation of which more than 50% in value of the outstanding stock is owned, directly or indirectly, by or for the trust or by or for the grantor of the trust,
4) The grantor and fiduciary, and the fiduciary and beneficiary, of any trust,
5) The fiduciaries of two different trusts, and the fiduciary and beneficiary of two different trusts, if the same person is the grantor of both trusts,
6) You and an exempt educational or charitable organization that is controlled by you or a member of your family, and
7) You and a partnership in which you are a partner owning, directly or indirectly, more than 50% of the capital interest, or the profits interest.

Indirect ownership of stock. In determining whether you own, directly or indirectly, any of the outstanding stock of a corporation, the following applies:

1) If stock is owned, directly or indirectly, by or for a corporation, partnership, estate, or trust in which you are a shareholder, partner, or beneficiary, you are treated as the owner in proportion to your ownership interest,
2) If stock is owned, directly or indirectly, by or for a member of your family (as defined under *Related persons*), it is considered to be owned by you, and
3) If you and another member of a partnership each own stock in the same corporation, directly or indirectly, you are treated as owning each other's stock. However, this does not apply for stock one of you owns because of the rule in (2).

Stock indirectly owned by a person under (1) is treated as actually owned by that person, for applying (1), (2), or (3). But stock indirectly owned by a person under (2) or (3) is not treated as owned by that person for again applying either (2) or (3) to make another the indirect owner of the stock.

Partial Interest in Property

Generally, no deduction is allowed for a charitable contribution, not made in trust, of less than your entire interest in property. However, this does not apply to a transfer of less than your entire interest if it is a transfer of:

1) A remainder interest in your personal residence or farm,
2) An undivided part of your entire interest in property, or
3) A qualified conservation contribution.

These transfers of a partial interest in property are discussed in Publication 526.

Valuation of a remainder interest in real property, not transferred in trust. The amount of the deduction for a donation of a remainder interest in real property is the fair market value of the remainder interest at the time of the contribution. Depreciation (figured by the straight line method) and depletion (figured by the cost depletion method) must be considered in determining the fair market value. This value must be reduced at the rate of 6% a year, or at some other rate set by the government.

If the remainder interest includes both depreciable and nondepreciable property, for example a house and land, the fair market value must be allocated between each kind of property at the time of the contribution. This rule also applies to a gift of a remainder interest that includes a property that is part depletable and part not depletable. Depreciation or depletion will be taken into account only for the property that is subject to depreciation or depletion.

To figure the value of a remainder interest in real property, see section 1.170A–12 of the Income Tax Regulations.

Undivided part of your entire interest. A contribution of an undivided part of your entire interest in property must consist of a part of each and every substantial interest or right you own in the property and must extend over the entire term of your interest in the property. For example, if you are entitled to the income from certain property for your life (life estate) and you contribute 20% of that life estate to a qualified organization, you can claim a deduction for the contribution if you do not have any other interest in the property. To figure the value of a contribution involving a life estate, see section 20.2031–7 of the Estate Tax Regulations.

If the only interest you own in property is a remainder interest and you transfer part of that interest to a qualified organization, see section 1.170A–12 of the Income Tax Regulations for determining the value.

Qualified conservation contribution. A qualified conservation contribution is a contribution of a ***qualified real property interest*** to a ***qualified organization*** to be used only for a ***conservation purpose.*** These terms are defined in Publication 526.

A qualified real property interest is any of the following interests in real property:

1) Your entire interest in real estate other than a mineral interest (subsurface oil, gas, or other minerals, and the right of access to these minerals). However, a contribution will not qualify if you have reduced your "entire real property interest" before you make the contribution by, for example, transferring part of your interest to a related person to (a) keep control of more than a mineral interest in the real estate or (b) to reduce the real estate interest donated.
2) A remainder interest.
3) A restriction (granted in perpetuity, that is, granted forever) on how the property may be used. These restrictions include easements and other interests in real estate that, under state property laws, have similar features.

Valuation. An interest described in (1) should be valued in a manner that is consistent with the type of interest transferred. If you owned all of the interest in the property, the fair market value of the entire property less the fair market value of any mineral interest you keep is the amount of the contribution. If you only owned a remainder interest or an income interest (life estate), or if you transferred a remainder interest (item (2)), the value should be determined as previously discussed in this section.

In determining the value of restrictions, you should take into account the selling price, in arm's length transactions, of other properties that have comparable restrictions. If there are no qualified sales, the restrictions are valued indirectly as the difference between the fair market value of the property involved before and after the grant of the restriction.

The fair market value of the property before contribution of the easement or restriction should take into account not only current use but the likelihood that the property, without the restriction, would be developed. You should also consider any zoning, conservation, or historical preservation laws that would restrict development. The granting of an easement may increase, rather than reduce, the value of property, and in such situation no deduction would be allowed.

Example. You own 10 acres of farmland. Similar land in the area has a fair market value of $2,000 an acre. However, land in the general area that is restricted solely to farm use has a fair market value of $1,500 an acre. Your county wants to preserve open space and prevent further development in your area.

You grant to the county an enforceable open space easement in perpetuity on 8 of the 10 acres, restricting its use to farmland. The value of this easement is $4,000, determined as follows:

Fair market value of the property before granting easement:		
$2,000 × 10 acres		$20,000
Fair market value of the property after granting easement:		
$1,500 × 8 acres	$12,000	
$2,000 × 2 acres	4,000	16,000
Value of easement		$ 4,000

If you later transfer in fee your remaining interest in the 8 acres to another qualified organization, you must consider the easement in determining the fair market value of the remaining interest.

Note: Granting an easement on part of your property can affect the value of your remaining property.

Problems in Determining Fair Market Value

There are a number of pitfalls to be avoided in determining the value of donated property. A few of the more common ones follow.

Fixed Formulas, Rules, or Methods

Determining the value of donated property would be a simple matter if the appraiser could rely only on fixed formulas, rules, or methods. Usually it is not that simple. Using such formulas, etc., seldom results in an acceptable determination of fair market value. There is no single formula that always applies when determining the value of property. This is not to say that a valuation is only guesswork. The appraiser must consider all the facts and circumstances connected with the property, such as its desirability, use, and scarcity. For example, donated furniture should not be evaluated at some fixed rate such as 15% of replacement cost new. When the furniture is contributed it may be out of style or in poor condition, therefore having little or no market value. On the other hand, it may be an antique whose value could not be determined by using any formula.

Unusual Market Conditions

The sale price of the property itself in an arm's length transaction in an open market is often the best evidence of its value. When you rely on sales of comparable property, the sales must have been made in an open market. If those sales were made in a market that was artificially supported or stimulated so as not to be truly representative, the prices at which the sales were made will not indicate the fair market value. For example, liquidation sale prices usually do not indicate the fair market value. Also, sales of stock under unusual circumstances, such as sales of small lots, forced sales, and sales in a restricted market, may not represent the fair market value.

Future Events

You may not consider unexpected events happening after your donation of property in making the valuation. You may only consider the facts known at the time of the gift, and those that could be reasonably expected at that time.

Example. You give farmland to a qualified charity. The transfer provides that your mother will have the right to all income and full use of the property for life. Even though your mother dies one week after the transfer, the value of the property on the date it is given is its present value, subject to the life interest as estimated from mortality tables. You may not take a higher deduction because the charity received full use and possession of the land only one week after the transfer.

Careless Selection of Comparable Sales

Using sales of comparable property is an important method for determining the fair market value of donated property. However, the amount of weight given to a sale depends on the degree of similarity between the comparable and the donated properties. The degree of similarity must be close enough so that this sales price would have been given consideration by reasonably well-informed buyers or sellers of the property.

Example. You give a rare old book to your former college. The book is a third edition and is in poor condition because of a missing back cover. You discover that there was a sale for $300, near the valuation date, of a first edition of the book that was in good condition. Although the contents are the same, the books are not at all similar because of the different editions and their physical condition. The sale price of the $300 property would be given little consideration by knowledgeable buyers or sellers.

Using Past Events to Predict the Future

A common error is to rely too much on past events to predict future earnings and fair market value.

Example. You give all your rights in a successful patent to your favorite charity. Your records show that before the valuation date there were three stages in the patent's history of earnings. First, there was rapid growth in earnings when the invention was introduced. Then, there was a period of high earnings when the invention was being exploited. Finally, there was a decline in earnings when competing inventions were introduced. While the entire history of earnings may be relevant in estimating the future earnings, the appraiser must not rely too much on the stage of rapid growth in earnings, or of high earnings. The market conditions at those times do not represent the condition of the market at the valuation date. What is most significant is the *trend of decline* in earnings up to the valuation date.

Valuation of Various Kinds of Property

Following is information on determining the fair market value of ordinary kinds of donated property. For information on records you must keep and appraisals, see *Recordkeeping* and *Appraisals*, later.

Household Goods

The fair market value of used household goods, such as furniture, appliances, and linens, is usually much lower than the price paid when new. Such used property may have little or no market value because of its worn condition. It may be out of style or no longer useful. For these reasons, formulas, such as 15% of the replacement cost new, are not acceptable in determining value.

You should support your valuation with photographs, cancelled checks, or receipts from your purchase of the items. Magazine or newspaper articles and photographs that describe the items and statements by the recipients of the items are also useful. None of these items needs to be included with your tax return.

If the property is valuable because it is old or unique, see the discussion under *Paintings, Antiques, Other Objects of Art.*

Used Clothing

Used clothing and other personal items are usually worth far less than the price you paid for them. Valuation of items of clothing does not lend itself to fixed formulas or methods.

You should claim as the value the price that buyers of used items actually pay in used clothing stores, such as consignment or thrift shops.

For valuable furs or very expensive gowns, an appraisal summary may have to be sent with your tax return.

Jewelry and Gems

Jewelry and gems, other than "costume" jewelry, are of such a specialized nature that it is almost always necessary to get an appraisal by a specialized jewelry appraiser. The appraisal should describe, among other things, the style of the jewelry, the cut and setting of the gem, and whether it is now in fashion. If not in fashion, the possibility of having the property redesigned, recut, or reset should be reported in the appraisal. The stone's coloring, weight, cut, brilliance, and flaws should be reported and analyzed. Sentimental personal value has no effect on fair market value. But if the jewelry was owned by a famous person, its value might increase.

Paintings, Antiques, Other Objects of Art

Unless the item being evaluated is minor, your deduction should be supported by a written appraisal from a qualified and reputable source. An example of the information that should be included in appraisals of art objects, paintings in particular, is found later under *Qualified Appraisal.*

Most art appraisers are not experts on all art. More weight will usually be given to an appraisal prepared by an individual specializing in the kind and price range of the art being ap-

praised. Certain art dealers or appraisers specialize, for example, in French old masters, modern art, bronze sculpture, etc. Their opinions on the authenticity and desirability of such art would usually be given more weight than the opinions of more generalized art dealers or appraisers. They can report more recent, comparable sales to support their opinion.

The authenticity of the donated art must be determined by the appraiser. Certificates of authenticity may be useful, but this depends on the genuineness of the certificate and the qualifications of the authenticator.

Important items in the valuation of antiques and art are physical condition and extent of restoration. These have a significant effect on the value and must be fully reported in an appraisal. An antique in damaged condition, or lacking the "original brasses," may be worth much less than a similar piece in excellent condition.

To identify and locate experts on unique, specialized items or collections, you may wish to use the current *Official Museum Directory* of the American Association of Museums. It has both a subject category and geographic index.

The *Encyclopedia of Associations*, Gale Research Company, is another useful starting point, particularly section 5, which describes educational organizations. Section 6 describes cultural organizations. Section 13 describes national hobby and avocational organizations, including various highly specialized private collector groups. It also has an alphabetical and key word index. These books may be available at a state, city, college, or museum library.

To help you locate a qualified appraiser for your donation, you may wish to ask an art historian at a nearby college or the director or curator of a local museum. The yellow pages often list specialized art and antique dealers, auctioneers, and art appraisers. Associations of dealers also may be contacted for guidance.

Collections

So many kinds of hobby collections may be the subject of a charitable donation that it is not practical to discuss them all in this publication. Most common are rare books, autographs, manuscripts, stamps, coins, guns, phonograph records, and natural history items. Many of the elements of valuation that apply to paintings and other objects of art, discussed earlier, also apply to miscellaneous collections.

Reference material. Publications available to help you determine the value of many kinds of collections include catalogs, dealers' price lists, and specialized hobby periodicals. However, these sources are not always reliable indicators of fair market value.

For example, a dealer may sell an item for much less than shown on a price list, particularly after the item has remained unsold for a long time. The price an item sold for in an auction may have been the result of a rigged sale or a mere bidding duel. The appraiser must analyze the reference material, and recognize and make adjustments for misleading entries. If you are donating a valuable collection, you should get an appraisal. If your donation appears to be of little value, you may be able to make a satisfactory valuation using reference materials available at a state, city, college, or museum library. If your local library does not have the necessary material, your librarian can often borrow it from the city or state library systems.

Stamp collections. Most libraries have catalogs or other books that report the publisher's estimate of values. Generally, two price levels are shown for each stamp; the price postmarked, and the price not postmarked. Stamp dealers generally know the value of their merchandise and are able to prepare satisfactory appraisals of valuable collections.

Coin collections. Many catalogs and other reference materials show the writer's or publisher's opinion of the current value of coins. Like many other collectors' items, the value of a coin depends on the demand for it, its age, and its rarity. Another important factor is the coin's condition. For example, there is a great difference in the value of a coin that is in ***mint condition*** and a similar coin that is only in ***good condition.***

Catalogs indicate the physical condition of a coin—mint, uncirculated, extremely fine, very fine, fine, very good, good, fair, or poor—with a different valuation for each category.

Books. The value of books is usually determined by selecting comparable sales and adjusting the prices according to the differences between the comparable sales and the item being evaluated. This is difficult to do and, except for a collection of little value, should be done by a specialized appraiser. Within the general category of literary property, there are dealers who specialize in certain areas, such as Americana, foreign imports, Bibles, and scientific books.

If the collection you are donating is of modest value, not requiring a written appraisal, the following information may help you in determining fair market value.

A book that is very old, or very rare, is not necessarily valuable. There are many books that are very old or rare, but that have little or no market value.

The condition of a book may have a great influence on its value. Collectors are interested in items that are in fine, or at least good condition. When a book has a missing page, a loose binding, tears, stains, or is otherwise in poor condition, its value is greatly lowered.

Some other important factors in the valuation of a book are the kind of binding (leather, cloth, paper), page edges, and illustrations (drawings and photographs). Collectors usually want first editions of books. However, because of changes or additions, other editions are sometimes worth as much as, or more than, the first edition.

Manuscripts, autographs, diaries, and similar items that are handwritten, or at least signed, by famous people, often are in demand and are valuable. The writings of unknowns also may be of value if they are of unusual historical or literary importance. Determining the value of such material is difficult. There may be a great difference in value between two diaries that were kept by a famous person—one kept during childhood and the other during an important period in his or her life. The appraiser determines a value in these cases by applying knowledge and judgment to factors, such as comparable sales and conditions.

Signatures, or sets of signatures, that were cut from letters or other papers, usually have little or no value. But complete sets of the signatures of U.S. Presidents are in demand.

Cars, Boats, and Aircraft

If you are not a dealer in cars, boats, or aircraft, and you give such property to a charitable organization, its fair market value must be determined.

Certain commercial firms and trade organizations publish, for different regions of the country, monthly or seasonal, complete dealer sale prices or dealer-average-prices. These are reported for each make, model, and year of used cars, aircraft, trucks, recreational vehicles, and boats. These guides also provide estimates for adjusting for unusual equipment, unusual mileage, and for physical condition. The prices are not "official" and these publications are not considered an appraisal of any specific donated property. But they do provide clues for making an appraisal and suggest relative prices for comparison with current sales and offerings in your area.

These publications are sometimes available from the loan officer at a bank, credit union, or finance company.

Except for inexpensive small boats, the valuation of boats should be based on an appraisal by a marine surveyor because the physical condition is so critical to the value.

Example. You donate your car to a local high school for use by students studying automobile repair. Your credit union told you that the "blue book" value of the car is $1,600. However, before you donated your car, you found that, because the car was a "clunker" needing extensive repairs, you could not sell it for more than $750. You may deduct $750, the *true* fair market value of the car.

Inventory

If you donate inventory (property that you sell in the course of your business), the fair market value is the price that you would have received if you had sold the contributed property in the market in which you usually sell, at the time and place of the contribution. For a donation of goods in quantity, the fair market value is the price for the quantity contributed. The usual market of a manufacturer or other producer is the group of wholesalers or other distributors to or through whom sales usually are made. However, if sales are made only at retail, the usual market is the retail customer.

If you donate inventory at a time when you reasonably could not expect to get its usual selling price, the value of the gift is not the usual selling price but is the amount that you could have sold the property for at the time of the contribution.

Costs and expenses relating to the contributed inventory that were incurred in earlier tax years and are properly included in the opening inventory for the year of the contribution must be removed from inventory. In addition, these costs and expenses are not to be considered as part of the cost of goods sold in determining gross income for the year of contribution. Instead they are considered in determining the basis of the contribution.

However, any costs or expenses for the contributed inventory, which are incurred in the year of the contribution, that would be properly included in the cost of goods sold, should be included in costs of goods sold and are not considered in arriving at the basis for the property. The treatment is the same for the current year's deductible expenses and costs for the contributed inventory, even though they are not includible in the cost of goods sold.

Stocks and Bonds

The value of stocks and bonds is the fair market value of a share or bond on the valuation date (see *Date of Contribution*, earlier).

Based on selling prices. If there is an active market for the contributed stocks or bonds on a stock exchange, in an over-the-counter market, or elsewhere, the mean (midpoint) of the highest and lowest quoted selling prices on the valuation date is the fair market value of each share or bond. For example, if the highest selling price for a share was $11, and the lowest $9, the mean is $10 (($11 + $9) ÷ 2).

If there were no sales on the valuation date, but there were sales within a reasonable period before and after the valuation date, the fair market value is determined by taking a weighted average of the means between the highest and lowest sales prices on the nearest date before and the nearest date after the valuation date. The average is to be weighted in *inverse* order by the respective number of trading days between the selling dates and the valuation date.

Example. You give stock to a qualified organization. There were no sales of the stock on that day. Sales of the stock nearest the valuation date took place two trading days before the valuation date at a mean selling price of $10 and three trading days after the valuation date at a mean selling price of $15. The fair market value is $12, figured as follows:

$$[(3 \times \$10) + (2 \times \$15)] \div 5 = \$12$$

Stocks or bonds listed on more than one stock exchange are valued based on the prices of the exchange where they are principally dealt in. If these prices are not published in a generally available listing or publication of general circulation and the stocks or bonds are reported on a composite listing of combined exchanges in a publication of general circulation, the composite list is used. See also *Unavailable prices or closely held corporation.*

Based on bid and asked prices. If there were no actual sales within a reasonable period before and after the valuation date, the fair market value is the mean between the bona fide bid and asked prices on the valuation date. If there were no prices available, the value may be determined by taking a weighted average of the means between the bona fide bid and asked prices on the closest trading date before and after the valuation date. Both dates must be within a reasonable period. The average should be weighted in *inverse* order by the respective number of trading days between the bid and asked dates and the valuation date.

Example. Although there were no sales of Blue Corporation stock on the valuation date, bona fide bid and asked prices were available on that date of $14 and $16, respectively. The fair market value is $15, the mean between the bid and asked prices.

If no actual sale prices or bona fide bid and asked prices are available on a date within a reasonable period before the valuation date, but are available on a date within a reasonable period after the valuation date, or vice versa, then the mean between the highest and lowest of such available sale prices, or bid and asked prices, may be taken as the value.

Large blocks of stock. There is a basic economic principle that, when the supply is greater than the demand, prices will be lower. For example, if an unusually large block of stock is to be valued and the market price is based on sales in small quantities, the stock to be valued often is considered to be worth less. On the other hand, market forces may exist that will afford higher prices for large blocks of stock. When the value of a given number of shares is affected by the size of the block, this is known as blockage. There are many factors to be considered in determining the amount of the discount or premium, if any, usually requiring the help of experts specializing in underwriting large quantities of securities, or trading in the securities of the industry of which a particular company may be a part.

Unavailable prices or closely held corporation. If selling prices or bid and asked prices are not available, or if securities of a closely held corporation are involved, the fair market value is to be determined by taking into consideration the following factors:

1) For bonds, the soundness of the security, the interest yield, the date of maturity, and other relevant factors, and
2) For shares of stock, the company's net worth, prospective earning power and dividend-paying capacity, and other relevant factors.

Some other relevant factors are the goodwill of the business, the economic outlook in the particular industry, the company's position in the industry, and the value of securities of corporations engaged in the same or similar business. For preferred stock, the most important factors are its yield, dividend coverage, and protection of its liquidation preference.

You should keep complete financial and other information on which the valuation is based, including copies of reports of examinations of the company, made on or close to the valuation date, by accountants, engineers, or any technical experts.

Restricted securities. A company often has a class of stock that cannot be traded publicly. The reason that the stock cannot be traded may be due to various restrictions placed on the stock by the Securities and Exchange Commission, or to restrictions placed on the stock by the corporate charter or a trust agreement. These restricted securities usually are traded at a discount in relation to freely traded securities.

All relevant factors, including those in the previous discussion, must be considered to arrive at the fair market value of restricted securities. Additional factors that must be considered include: the resale provisions found in the restriction agreements, the relative negotiating strengths of the buyer and seller, and the market experience of freely traded securities of the same class as the restricted securities.

Real Estate

Because each piece of real estate is unique and its valuation is complicated, a detailed appraisal by a professional appraiser is necessary.

The appraiser must be thoroughly trained in the application of appraisal principles and theory. There will be instances when the opinions of equally qualified appraisers may carry unequal weight. One appraiser may have a better personal knowledge of local business conditions by having participated in sales and purchases, or having actually bought and sold comparable properties, on or about the date of appraisal by or near the property to be appraised.

Essential in any appraisal report is a complete description of the property, such as street address, legal description, lot and block number, as well as physical features, condition, and dimensions. The use to which the property is put, zoning and permitted uses, and its potential use for other higher and better uses are also relevant.

Usual valuation methods. In general, there are three main approaches to the valuation of real estate. Each of these approaches is important enough to warrant an individual discussion. It should be recognized that an appraisal may require a combined use of two or three methods rather than one method only.

1. Comparable sales

The comparable sales method compares the donated property with several similar properties that have been sold. The sales prices, after adjustments for differences in date of sale, size, condition, and location, would then indicate the estimated fair market value of the donated property.

If the comparable sales method is used to determine the value of *unimproved real property* (land without significant buildings, structures, or any other improvements that add to its value), the appraiser should consider the following factors when comparing the potential comparable property and the donated property:

1) Location, size, zoning or use restrictions,
2) Accessibility and road frontage, available utilities and water rights,
3) Riparian rights (right of access to and use of the water by owners of land on the bank of a river), existing easements, rights of way, leases, etc.,
4) Soil characteristics, vegetative cover, status of mineral rights, and
5) Other factors affecting value.

In addition, the names of the buyer and seller, the deed book and page number, the date of sale, sale price, property description, amount and terms of mortgages, property surveys, the assessed value, tax rate, and the assessor's appraised fair market value of the comparable properties should be indicated.

The comparable sale price must be adjusted to account for differences between the sale property and the donated property. Because differences of opinion may arise between appraisers as to the degree of comparability and the amount of the adjustment considered necessary for comparison purposes, an appraiser should document each item of adjustment.

Only comparable sales having the least adjustments in terms of items and/or total dollar adjustments should be considered as comparable to the donated property.

2. Capitalization of income

This method capitalizes the net income from the property at a rate that represents a fair return on the particular investment at the particular time, considering the risks involved. The key elements are the determination of the income to be capitalized and the rate of capitalization.

3. Replacement cost new or reproduction cost minus observed depreciation

This method alone typically does not result in a determination of fair market value. When used, it generally tends to set the upper limit of value, particularly in periods of rising costs, because it is reasonable to assume that an informed buyer will not pay more for the real estate than it would cost to reproduce a similar property. Of course, this reasoning does not apply if a similar property cannot be created because of location, unusual construction, or some other reason. Generally, this method serves to support the value. When the replacement cost method is applied to *improved realty*, the land and improvements are valued separately.

The replacement cost of a building is figured by recognizing the materials, the quality of workmanship, and the number of square feet or cubic feet in the building. This cost represents the total cost of labor and material, overhead and profit. After the replacement cost has been figured, consideration must be given to the following factors:

1) Physical deterioration—the wear and tear on the building itself,
2) Functional obsolescence—usually in older buildings where, for example, there is inadequate light, plumbing, or heating, where rooms are small or the floor plan is poor, and
3) Economic obsolescence—outside forces causing the whole area to become less desirable.

Interest in a Business

The fair market value of any interest in a business, whether a sole proprietorship or a partnership, is the net amount that a willing buyer would pay for the interest of a willing seller after consideration of all relevant factors. The relevant factors to be considered in valuing the business are:

1) The fair market value of the assets of the business,
2) The prospective earning capacity of the business, based on a review of past and current earnings, and
3) The other factors used in evaluating corporate stock, if they apply.

The value of the goodwill of the business should also be taken into consideration. You should keep complete financial and other information on which the valuation is based, including copies of reports of examinations of the business made, on or close to the valuation date, by accountants, engineers, or any technical experts.

Annuities, Terms for Years, Remainders, and Reversions

The value of these kinds of property is their present value, except in the case of annuities under contracts issued by companies regularly engaged in their sale. The valuation of these commercial annuity contracts and of insurance policies is discussed later under *Certain Life Insurance and Annuity Contracts*. The special rule for *Donating a Future Interest in Tangible Personal Property* is discussed earlier in this publication.

It is usually necessary to refer to actuarial tables to determine your charitable deduction when annuities, income from trust property, or remainder interests are transferred to a charitable organization.

The present value of an annuity, remainder (other than those specified), or reversion that is dependent on the continuation or termination of the life of one person is figured by the use of Table A in section 20.2031–7 of the Estate Tax Regulations. The present value of an annuity, term for years, remainder, or reversion that is dependent on a term certain (definite number of years) is figured by the use of Table B in the above regulations.

The value of a remainder interest in a charitable remainder annuity trust is determined under section 1.664–2 of the Income Tax Regulations. The value of a remainder interest in a charitable remainder unitrust is determined under section 1.664–4 of the Regulations. The value of a remainder interest in a pooled income fund is determined under section 1.642(c)–6 of the Regulations.

If the valuation of the interest depends on the continuation or termination of more than one life, or on a term certain concurrent with one or more lives, a special factor must be used. Many of these factors may be found in, or can be figured with the use of IRS Publications 723C, 723D, and 723E, available for purchase from the Government Printing Office, Washington, DC 20402.

If a special factor is needed for an actual transaction, you may ask for the special factor by writing to the Internal Revenue Service, Associate Chief Counsel (Technical), CC:IND:S, 1111 Constitution Avenue, N.W., Washington, DC 20224. Be sure to include the date of birth of each person, the duration of whose life may affect the value of the interest, and copies of the relevant instruments.

In certain circumstances a charitable deduction may be allowed for the donation of a partial interest in property. See *Partial Interest in Property*, earlier, for more information.

Certain Life Insurance and Annuity Contracts

The value of an annuity contract or a life insurance policy issued by a company regularly engaged in their sale is the amount that company would charge for a comparable contract.

But, if the donee of a life insurance policy may reasonably be expected to cash the policy rather than hold it as an investment, then the fair market value is the cash surrender value rather than the replacement cost.

If an annuity is payable under a combination annuity contract and life insurance policy (for example, a retirement income policy with death benefit) and there was no insurance element when it was transferred to the charity, the policy is treated as an annuity contract.

Personal Services

You may not deduct the value of the *time* or *services* that you contribute to a qualified organization. For example, if you are a carpenter, you may not deduct the value of the time or services you give to make repairs on a church. Lawyers, doctors, mechanics, artists, etc., may not deduct the value of their donated time or services.

However, you may deduct unreimbursed *out-of-pocket expenses* you pay in giving services to a charitable organization. These include amounts you pay for transportation from your home to the place where you serve. Also, if you use your car, expenses (such as gas and oil) directly related to services you give to the charitable organization are deductible. If you do not deduct the actual car expenses incurred, you may deduct a standard mileage rate of 12 cents a mile.

For more information on out-of-pocket expenses that qualify for a charitable contributions deduction, see Publication 526.

Recordkeeping

If you make charitable contributions there are certain records that you must keep. Information from these records is needed to substantiate deductions claimed on your tax return. The information is also needed to complete Form 8283, *Noncash Charitable Contributions*, which must be attached to your tax return if the total claimed value of contributed property is more than $500. The following discusses the records that you must keep for contributions of property other than money. See Publication 526 for other information on recordkeeping.

Receipts. If you make a charitable contribution of property other than money, you must maintain for each contribution a receipt from the donee organization showing the following information:

1) The name of the donee,
2) The date and location of the contribution, and
3) A description of the property in detail reasonably sufficient under the circumstances. One of the circumstances to be taken into account is the fair market value of the property. Therefore, the greater the value the more detail that is needed.

A letter or other written communication from the donee organization acknowledging receipt of the contribution, showing the date of the contribution, and containing a sufficiently detailed description of the property contributed is considered a receipt. A receipt is not required if the contribution is made in circumstances where it is impractical to obtain a receipt. An example is where you deposit property at a charity's unattended drop site.

Written records. In all cases you must keep reliable written records covering each item of donated property. These records must include the following information:

1) The name and address of the donee organization to which the contribution was made.
2) The date and location of the contribution.
3) A description of the property in detail reasonably sufficient under the circumstances. One of the circumstances to be taken into account is the fair market value of the property. The greater the value the more detail that is needed. For securities include the name of the issuer, the type of security, and whether the security is regularly traded on a stock exchange or in an over-the-counter market.
4) The fair market value of the property at the time the contribution was made, the method used in determining the fair market value and, if an appraisal was used, a copy of the signed report of the appraiser.
5) For contributions of appreciated property show the cost or adjusted basis of the property, the reduction for the ordinary income and long-term capital gain amounts, and the manner of determining the reductions (see *Gifts of Appreciated Property*, earlier).
6) If less than your entire interest in the property is contributed during the tax year, show the total amount claimed as a deduction for the tax year due to the contribution of the property, the amount claimed in prior years for contributions of other interests in the property, the name and address of each organization to which any such contribution was made, the place where any such tangible property is located or kept, and the name of any person, other than the donee organization, having actual possession of the property.
7) The terms of any agreement or understanding entered into by or on your behalf that relates to the use, sale, or other disposition of the property. This includes, for example, agreements that (a) restrict temporarily or permanently the right of the organization to use or dispose of the property, (b) reserve to, or confer upon, anyone, other than the organization, any right to the income from or possession of the property, including the right to vote donated securities, to acquire the property by purchase or otherwise, or to designate the person having such income, possession, or right to acquire, or (c) earmark donated property for a particular use.

Your written records must be reliable. Factors indicating that the written records are reliable include, but are not limited to:

1) The contemporaneous nature of the writing evidencing the contribution.
2) The regularity of your recordkeeping procedures. For example, if you regularly make contemporaneous diary entries stating the amount and date of the donation and the name of the donee organization, your diary would generally be considered a reliable written record.
3) For a contribution of a small amount, the existence of any written or other evidence from the donee organization showing receipt of a donation, but not meeting the requirements of a receipt as discussed earlier. This evidence includes emblems, buttons, or other

tokens traditionally associated with a charitable organization and regularly given by the organization to persons making cash donations.

Deductions of more than $500. If you make a charitable contribution of property other than money and claim a deduction of more than $500 for the contribution of that item, your written records must include the following information in addition to the 7 items listed previously.

1) The manner of acquisition, such as by purchase, gift, bequest, inheritance, or exchange.
2) The approximate date you acquired the property or, if the property was created, produced, or manufactured by or for you, the approximate date the property was substantially completed.
3) The cost or adjusted basis of the property, other than publicly traded securities held by you for a period of less than 6 months immediately preceding the date the contribution was made. When available this information should be shown for property held for a period of 6 months or more preceding the date the contribution was made.

Form 8283 must be completed and attached to your tax return if you claim a noncash charitable contribution deduction of more than $500. If you do not itemize deductions and you claim a direct charitable deduction for contributions, the total value of the property before applying the percentage determines if you must file Form 8283.

Deductions of more than $5,000. If you made a charitable contribution of property, other than money or publicly traded securities, the claimed value of which is more than $5,000, you must meet the *substantiation requirements*, listed below, to be allowed a charitable contribution deduction for that property. The claimed value is the total claimed or reported value of such item of property and all similar items of property for which charitable contribution deductions are claimed or reported by you for the same tax year, whether or not donated to the same donee.

The phrase *similar items of property* means property of the same generic category or type such as stamps, coins, lithographs, paintings, photographs, books, nonpublicly traded stock, publicly traded stock, land, or buildings. For example, if you give books to three schools and the books are valued at $2,000, $2,500, and $900, respectively, your claimed value is more than $5,000 for these books. You must meet the substantiation requirements that follow to be allowed a charitable contribution deduction for the books.

Substantiation requirements. These requirements apply to charitable contributions made by an individual, closely held corporation, personal service corporation, partnership, or S corporation. The donor of property, other than nonpublicly traded stock, must:

1) Obtain a qualified appraisal (see *Appraisals*, later) for the property contributed,
2) Attach a fully completed appraisal summary (see *Appraisals*) to the tax return (or information return) on which the deduction for the contribution is first claimed or reported, and
3) Maintain the reliable written records discussed earlier.

For *nonpublicly traded stock*, the claimed value of which is more than $5,000 but not more than $10,000, you must—

1) Attach a partially completed appraisal summary to the tax return (or information return) on which the deduction is first claimed or reported, and
2) Maintain the reliable written records discussed earlier.

Appraisals

Appraisals are not always necessary, particularly for minor items of property. This is also true when the value of the property can easily be determined, such as the prices of securities that are reported daily in the newspapers.

Generally, if the claimed value of an item of donated property, or similar items of property, is more than $5,000, you must get a *qualified appraisal* made by a *qualified appraiser* and you must attach an *appraisal summary* to your tax return. If the value determined by an appraisal is not more than $5,000, you should keep the appraiser's report with your records.

The weight given the appraisal depends on the completeness of the report, the qualifications of the appraiser, and the appraiser's demonstrated knowledge of the donated property. An appraisal must give all the facts on which to base an intelligent judgment of the value of the property.

The appraisal may not be given any weight if:

1) All the factors that apply are not considered,
2) The opinion is not supported with facts, such as purchase cost and comparable sales, or
3) The opinion is not consistent with known facts.

The appraiser's opinion is never more valid than the facts on which it is based; without these facts it is simply a guess.

Membership in professional appraisal or dealer organizations does not automatically establish the appraiser's competency. Nor does the lack of certificates, memberships, etc., automatically disprove the competency of the appraiser.

The opinion of a person claiming to be an expert is not binding on the Internal Revenue Service. All facts associated with the donation may be considered.

Cost of appraisals. You may not take a charitable deduction for fees you pay for appraisals of your donated property. However, they may qualify as a miscellaneous deduction on Schedule A (Form 1040) if they were paid to determine the amount allowable as a charitable contribution.

Qualified Appraisal

A qualified appraisal is an appraisal document that:

1) Relates to an appraisal made not earlier than 60 days prior to the date of contribution of the appraised property, and
2) Is prepared, signed, and dated by a *qualified appraiser* (defined later), and
3) Includes certain information (covered later).

No part of the fee arrangement for a qualified appraisal can be based on a percentage of the appraised value of the property. (If a fee arrangement is based on what is allowed as a deduction, after Internal Revenue Service examination or otherwise, it is treated as a fee based on a percentage of appraised value.) However, this rule does not apply to a fee paid to a generally recognized association that regulates appraisers if:

1) The association is not organized for profit and no part of the net earnings benefit any private shareholder or individual, and
2) The appraiser does not receive any compensation from the association or any other persons for making the appraisal, and
3) The fee arrangement is not based in whole or in part on the amount of the appraised value that is allowed as a deduction after an Internal Revenue Service examination or otherwise.

You must receive the qualified appraisal before the due date (including extensions) of the return on which a charitable contribution deduction is first claimed for the donated property. If the deduction is first claimed on an amended return, the qualified appraisal must be received before the date on which the return is filed.

You must keep the qualified appraisal as long as it may be relevant under the tax law. You do not need to attach it to your tax return. The appraisal summary must be attached to your tax return.

Information included in qualified appraisal. A qualified appraisal must include the following information:

1) A description of the property in sufficient detail for a person who is not generally familiar with the type of property to determine that the property appraised is the property that was (or will be) contributed,
2) The physical condition of any tangible property,
3) The date (or expected date) of contribution,
4) The terms of any agreement or understanding entered into (or expected to be entered into) by or on behalf of the donor (see item 7 of *Written records*, earlier, under *Recordkeeping*),
5) The name, address, and taxpayer identification number of the qualified appraiser and, if the appraiser is a partner, an employee, or an independent contractor engaged by a person other than the donor, the name, address, and taxpayer identification number of the partnership or the person who employs or engages the appraiser,
6) The qualifications of the qualified appraiser who signs the appraisal, including the appraiser's background, experience, education, and any membership in professional appraisal associations,
7) A statement that the appraisal was prepared for income tax purposes,
8) The date (or dates) on which the property was valued,
9) The appraised fair market value on the date (or expected date) of contribution,
10) The method of valuation used to determine fair market value, such as the income approach, comparable sales or market data approach, or the replacement cost less depreciation approach,
11) The specific basis for the valuation, if any, such as any specific comparable sales transaction, and
12) A description of the fee arrangement between the donor and appraiser.

Number of qualified appraisals. A separate qualified appraisal is required for each item of property that is not included in a group of similar items of property. You need only one qualified appraisal for a group of similar items of property contributed in the same tax year, but you may get separate appraisals for each item. A qualified appraisal for a group of similar items must provide all of the required information for each item of similar property. The ap-

praiser, however, may provide a group description for selected items whose total value is not more than $100.

An example of information that should be included in a description of donated property follows. This example deals with the valuation of art objects, but the same kind of detailed information may be given for other property. Appraisal of art objects, paintings in particular, should include:

1) A complete description of the object, indicating the size, the subject matter, the medium, the name of the artist, and approximate date created.
2) A history of the ownership and public exhibitions of the item including proof of authenticity, such as a certificate of authenticity and citations in literature.
3) A photograph of a size and quality fully showing the object, preferably an 8" × 10" black and white or color print, or a 5" × 7" color transparency.
4) The facts on which the appraisal was based, such as—
   a) Sales or analyses of similar works by the artist, particularly on or around the valuation date,
   b) For living artists, prices in dealers' catalogs of the artist's works,
   c) The state of the art market at the time of valuation, particularly with respect to the specific artist, school, or price range.

Appraisal Summary

For a contribution of property, the claimed value of which is more than $5,000, to be allowed as a deduction you must attach a fully completed appraisal summary to your tax return. Only a partially completed appraisal summary is required for contributions of nonpublicly traded stock if its claimed value is not more than $10,000.

Form 8283. Section B of Form 8283 is the appraisal summary. You must complete and attach the form to your return. If you fail to attach the form, the Service may request that you submit it within 90 days of the request. If you comply, the deduction will not be disallowed because of the failure if the failure was a good faith omission.

A separate Form 8283 for each item of contributed property must be attached to the return. If you contribute similar items of property to the same donee organization, you need attach only one Form 8283 for those items. If you contribute similar items of property to more than one donee organization, you must attach a separate form for each donee.

The following is a brief description of the appraisal summary. See the Form 8283 instructions for more information.

Part I, Donee Acknowledgement, is completed by the charitable organization. This part must be signed by an official authorized to sign the tax or information returns of the donee organization, or by a person authorized by such an official to sign Form 8283. The signature does not indicate agreement with the appraised value of the property. It represents acknowledgement of receipt of the property on the date specified on the form. It also acknowledges that the organization understands its information reporting requirements if it disposes of the property in any way within 2 years after the date of receipt. In this situation, the organization must file Form 8282, *Donee Information Return,* and send you a copy of that form.

After completing Part I of Schedule B (Form 8283) the donee organization will return the form to you. You may then complete the information needed.

Part II, Information on Donated Property, is completed by you or the appraiser. The information needed for this part should come from the qualified appraisal and your written records.

Part III, Certification of Appraiser, is completed by the appraiser of the property. This section must be completed for the individual to be considered a qualified appraiser.

Qualified Appraiser

An individual must complete Part III of Section B (Form 8283), which contains a declaration that must be made for the individual to be considered a qualified appraiser. More than one appraiser may appraise the property, provided that each complies with the requirements, including signing the qualified appraisal and appraisal summary.

Excluded individuals. The following persons cannot be qualified appraisers with respect to particular property—

1) The donor of the property.
2) The donee of the property.
3) A party to the transaction in which the donor acquired the property being appraised, unless the property is donated within 2 months of the date of acquisition and its appraised value does not exceed its acquisition price. This applies to the person who sold, exchanged, or gave the property to the donor, or any person who acted as an agent for the transferor or donor in such transaction.
4) Any person employed by, or related under section 267(b) of the Internal Revenue Code to any of the above persons. For example, if the donor acquired a painting from an art dealer, neither the dealer nor persons employed by the dealer can be qualified appraisers for that painting.
5) Any person whose relationship to any of the above persons would cause a reasonable person to question the independence of such appraiser. For example, an appraiser regularly used by the donee who does not perform a substantial number of appraisals for other persons, has a relationship to the donee that is similar to that of an employee and cannot be a qualified appraiser for property contributed to the donee.

A person who completes the appraisal summary and who is not an excluded individual is not a qualified appraiser for a particular donation if the donor had knowledge of facts that would cause a reasonable person to expect the appraiser to falsely overstate the value of the donated property. For example, a donor makes an agreement with the appraiser that the property will be valued at more than its fair market value. The appraiser is not a qualified appraiser for the donation.

Penalties. Any appraiser who falsely or fraudulently overstates the value of property described in a qualified appraisal or appraisal summary that the appraiser has signed may be subject to (1) a civil penalty for aiding and abetting an understatement of tax liability, and (2) having his or her appraisals disregarded.

Internal Revenue Service Review of Appraisals

In reviewing an income tax return, the Service may accept the claimed value of the donated property, based on information or appraisals sent with the return. Or the Service may make its own determination of fair market value. In either case, the Service may:

1) Contact the taxpayer to get more information,
2) Refer the valuation problem to a Service appraiser or valuation specialist,
3) Refer the issue to the Commissioner's Art Advisory Panel. This is a 12 member group of dealers and museum directors who review and recommend acceptance or adjustment of taxpayers' claimed values for major paintings, sculptures, or antiques, or
4) Contract with an independent dealer, scholar, or appraiser to appraise the property. (This may be done by the Service when the objects require appraisers of highly specialized experience and knowledge.)

The Service is responsible for reviewing appraisals, but it is not responsible for making them. Supporting the fair market value listed on your return is your responsibility.

The Service does not give recognition to any appraiser or organization of appraisers and does not accept their appraisals without question.

The Service does not approve valuations or appraisals before the actual filing of the tax return to which the appraisal applies. In addition, the Service does not issue advance rulings approving or disapproving such appraisals.

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